

Service Date: October 31, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER Of the Application	)	
Of MONTANA POWER COMPANY to	)	Docket No. 87.4.21
Restructure Electrical Rates.	)	
IN THE MATTER Of the Application	)	
Of MONTANA POWER COMPANY For	)	Docket No. 86.6.29
Authority To Implement an Electric	)	
Economic Incentive Rate.	)	
IN THE MATTER Of the Application	)	
Of MONTANA POWER COMPANY For	)	
Authority To Establish An Electric	)	Docket No. 85.9.40
Industrial Retention/Interruptible	)	
Rate For Stauffer Chemical Co.	)	
IN THE MATTER Of the Application	)	
Of MONTANA POWER COMPANY To Change	)	Docket No. 85.11.49
The Availability Criteria In The	)	
Electric Contract Tariff.	)	
IN THE MATTER Of the Complaint Of	)	
MONTANA REFINING COMPANY,	)	
Complainant,	)	Docket No. 86.12.50
vs.	)	
MONTANA POWER COMPANY,	)	
Defendant.	)	ORDER NO. 5340d

APPEARANCES

FOR THE APPLICANT:

Pamela K. Merrell, Attorney at Law, The Montana Power Company,  
40 East Broadway, Butte, Montana 59701.

FOR THE MONTANA CONSUMER COUNSEL:

James C. Paine, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59620.

FOR DISTRICT XI HUMAN RESOURCE COUNCIL:

Peggy Probasco, Staff Attorney, District XI Human Resources Council, 617 South Higgins Avenue, Missoula, Montana 59812

FOR ASARCO INCORPORATED, ASH GROVE CEMENT WEST, CHAMPION INTERNATIONAL, CONOCO INC. EXXON COMPANY U.S.A., IDEAL BASIC INDUSTRIES, AND STONE CONTAINER:

Robert M. Pomroy Jr., Attorney at Law, Holland & Hart, 555 Seventeenth Street, Suite 2900, Denver, Colorado 80201

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FOR MONTANA REFINING:

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FOR MONTANA LOW INCOME COALITION, BUTTE COMMUNITY UNION, LOW INCOME GROUP FOR HUMANE TREATMENT, MONTANA SENIOR CITIZENS ASSOCIATION, CONCERNED CITIZENS COALITION:

Robert C. Rowe, Attorney at Law, 127 E. Main, Room 209, Missoula, Montana 59802

FOR THE COMMISSION:

Robert A. Nelson, Chief Counsel, 2701 Prospect Avenue, Helena, Montana 59620

Timothy R. Baker, Staff Attorney, 2701 Prospect Avenue, Helena, Montana 59620

John B. Bushnell, Staff Economist, 2701 Prospect Avenue, Helena, Montana 59620

BEFORE:

CLYDE JARVIS, Chairman, Presiding  
HOWARD L. ELLIS, Commissioner  
TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner  
JOHN B. DRISCOLL, Commissioner

FINDINGS OF FACT

PART A

BACKGROUND

1. The Montana Power Company (hereafter MPC, Company, or Applicant) is a public utility furnishing electric service in the State of Montana, and is subject to the regulatory jurisdiction of the Public Service Commission (PSC or Commission). The Company serves approximately 242,000 electric customers in Montana.

2. On April 9, 1987, MPC filed with the Commission its application for authority to restructure electric rates.

3. Pursuant to the Notice of Public Hearing, a hearing was held in Helena, Montana, commencing on Monday, November 2, 1987 and ending on Thursday, November 5, 1987.

4. On April 22, 1988, the Commission issued Order No. 5340 presenting its decision on the cost service issues in this proceeding.

5. On May 20, the Montana Consumer Counsel (MCC) submitted a Motion for Reconsideration of Order No. 5340. On June 29, 1988, the Commission issued Order No. 5340a on the Motion For Reconsideration.

6. On July 29, 1988, the Commission issued Order No. 5340b dismissing the motion of the Industrial Intervenors for Reconsideration of Order No. 5340a.

7. On August 17, 1988, the Commission issued Order No. 5340c presenting its decision on rate design issues in this proceeding.

8. On September 26, 1988, MPC filed its Motion for Reconsideration of Order No. 5340c.

PART B

RECONSIDERATION OF ELECTRIC ECONOMIC INCENTIVE RATE (EEI) EEI Penalty.

9. The Company requests that the Commission reconsider its finding requiring MPC to compensate ratepayers for 10% of the difference between the EEI Revenues and revenues that would have been generated under the otherwise applicable tariff (Order No 5340c, Finding No. 78). MPC argues that the evidence is undisputed that "but for" the special EEI rate MRI would "not" be a MPC customer. MPC also argues that if EEI power had been sold off system instead, no penalty would take place, and therefore, no penalty should take place now. Furthermore, the Company points out that the MCC's recommendation to share any revenue deficiency caused by the EEI rate, testimony which was used by the Commission to support its finding, is a recommendation for future rate cases, not applicable in this proceeding. The Company concludes that the penalty is inappropriate and requests that the Commission revise its findings accordingly.

10. The Commission finds merit in the Company's proposal to reconsider Finding No. 78 (Order No. 5340c). The Commission reverses its position regarding the EEI penalty. The Commission's original decision in Order No. 5340c was based on MCC's revenue sharing testimony. The Company has noted correctly that MCC's revenue sharing testimony takes place in the context of future, not present rate cases. MPC is also correct in pointing out that no

party in this proceeding has disproved the "but for not" nature of the EEI load. The issue of whether revenue deficiency sharing is appropriate for EEI-type loads will be revisited in future proceedings.

Off-System Sales.

11. The Company also asks for reconsideration of the Commission's finding which states that MPC must compensate ratepayers for EEI sales below off-system sales prices (Order No. 5340c, Finding No. 76). The Company points out that while off-system sales may vary between rate cases, ratepayers are always reimbursed at the rate of 22 mills/kWh. MPC indicates that it reviews the EEI rate annually and if it expects off-system sales to exceed 22 mills/kWh, there is a provision in the EEI schedule which allows MPC to increase the EEI rate. Additionally, MPC claims that off-system sales prices are, "difficult, if not impossible" to determine.

12. The Company argues that the EEI rate schedule already protects ratepayers from EEI sales below off-system sales prices:

Under the EEI, each year MPC reviews the off-system market and if it expects better prices than 22/mills, (sic) it can increase rates as provided in the schedule. Thus, even if ratepayers should receive the protection contemplated in F.O.F. No. 76, the fact is that the rate schedule provides such protection.

The Commission wonders how MPC is going to justify increasing EEI rates if off-system sales values are "impossible" to determine. The Commission remains unconvinced by MPC's argument that off-system sales prices are impossible to determine. Moreover, the Commission believes that if MPC chooses not to increase EEI rates in the face of higher off-system sales prices, then ratepayers should not have

to bear the cost of the revenues foregone. Therefore, the Commission chooses to retain Finding No. 76, requiring MPC to compensate ratepayers for EEI sales below off-system sales prices (Order 5340c).

13. Consistent with Order No. 5340c the Commission continues to believe that the EEI rate should recover MPC's marginal opportunity costs at all times, and that when MPC chooses to serve EEI load, it gives up the opportunity to either; 1) reduce system lambda costs, or 2) sell power off system at the margin" (Order No. 5340c, Finding No. 76). The Commission already requires MPC to compensate ratepayers for EEI sales below off-system sales (Order No. 5340c, Finding No. 76). On further reflection, the Commission now believes that it may be appropriate in the future to require MPC to compensate ratepayers for EEI sales which are below any opportunity cost.

14. Other opportunity costs which may be relevant include what MCC describes as, "full marginal costs." The MCC indicates that requiring EEI customers to pay full marginal cost may eliminate the need for EEI/EIRI revenue deficiency sharing:

- Q. Would you be willing to modify this position if circumstances would suggest that rates which provide earnings below system average levels are necessary to keep customers on the system?
- A. Such allowances may not be necessary so long as customers requesting EIRI and EEI-type services are required to pay the full marginal cost of receiving service under these rates. If customers are willing to pay rates which recover the full incremental costs of production and transmission capacity, plus an appropriate amount for distribution and customer costs, then the customer would be paying rates

which reflect the incremental costs of receiving service (emphasis added). (Exh. 18, p. 74).

15. The MCC indicates that "full marginal costs" include both long-run and short-run components. Those costs are, "the costs of distribution and transmission facilities, replacement power costs (if supplied to the customer) plus incremental energy costs." (MCC RDR PSC No. 34). It would appear that distribution costs may not be relevant in this calculation unless an EEI customer is served at the distribution service level. However, transmission capacity and energy costs clearly appear to be relevant to such a determination.

16. The Commission's Finding No. 80 requires MPC to include EEI loads as a separate rate class in its next cost-of-service study (Order 5340c). Such a study may provide a basis for determining the "full marginal costs" of EEI-type sales.

17. The MCC also recommends that EIRI/EEI loads should pay 1.2 times the variable cost of any resource used to meet that load (see Order No. 5340c, Finding No. 69). In light of the MCC's prior recommendation, the Commission wonders whether the MCC means 1.2 times the greater of incremental costs or purchases, or 1.2 times the cost of MPC's marginal resource.

18. The Commission believes that other EEI issues remain unresolved as well. For example, should EEI-type loads be given credit for interruptibility? If so, EEI sales below off-system prices or relevant incremental costs may be justified on the basis of interruptibility. The Commission intends to revisit these issues in future rate cases. If other opportunity costs are identified, (e.g., MCC's "full marginal costs"), in a future proceeding, the

Commission will consider requiring MPC to compensate ratepayers for EEI sales below those costs.

#### PART C

##### GENERAL COMMENTS REGARDING RATE DESIGN

19. The Company is not asking for reconsideration of the Commission's decision regarding rate design. Rather, the Company comments on the Commission's rate design determinations. The Commission believes that since MPC did not ask for reconsideration of these issues, this Order on Motion for Reconsideration need not address those issues. However, the Commission invites the Company to address these issues in its next cost-of-service and rate design filing.

##### CONCLUSIONS OF LAW

1. The Applicant, Montana Power Company, furnishes electric service to consumers in the State of Montana and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. Section 69-3-101, MCA.

2. The Commission properly exercises jurisdiction over the Applicant's rates and operations. Section 69-3-102, MCA and Title 69, Chapter 3, Part 3, MCA.

3. The Commission has provided adequate public notice of all proceedings and an opportunity to be heard to all interested parties in this Docket, Title 2, Chapter 4, MCA.

##### ORDER

1. The Montana Public Service Commission grants the Montana Power Company's Motion for Reconsideration as it relates to Finding No. 78 of Order No. 5340c.



2. The Montana Public Service Commission Denies the Montana Power Company's Motion of Reconsideration as it relates to Finding No. 76 of Order No. 5340c.

3. All other motions or objections made in the course of these proceedings which are consistent with the findings, conclusions, and decision made herein are Granted, those inconsistent are Denied.

DONE AND DATED at Helena, Montana this 27th day of October, 1988 by a 3 - 1 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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CLYDE JARVIS, Chairman

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HOWARD L. ELLIS, Commissioner

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TOM MONAHAN, Commissioner  
Abstaining

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DANNY OBERG, Commissioner

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JOHN B. DRISCOLL, Commissioner  
Dissenting - No Dissent Written

ATTEST:

Carol A. Frasier  
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.